

DIRECTIVE

WORKFORCE INVESTMENT ACT

Number: WIAD00-6

Date: March 5, 2001
69/78:jo:75:va:4279

TO: LOCAL WORKFORCE INVESTMENT AREAS
CHIEF ELECTED OFFICIALS
CALIFORNIA WORKFORCE INVESTMENT BOARD STAFF
WDB STAFF

SUBJECT: AUDIT REQUIREMENTS

EXECUTIVE SUMMARY:

Purpose:

The purpose of this directive is to establish audit requirements for entities receiving Workforce Investment Act (WIA) funds.

Scope:

The information in this directive applies to all Local Workforce Investment Areas (LWIA) and subgrantees expending \$300,000 or more in federal funds in a year.

Effective Date:

The effective date of this directive is date of issuance.

REFERENCES:

- WIA Section 184
- Title 20 Code of Federal Regulations (CFR) Federal Register, Section 667.200(b)
- Title 29 CFR Federal Register, Part 95 or 97
- Title 31 United States Code (USC) Chapter 75
- Office of Management and Budget (OMB) Circular A-133

STATE-IMPOSED REQUIREMENTS:

This document contains State-imposed requirements. These requirements are in ***bold, italic*** print.

FILING INSTRUCTIONS:

This directive finalizes Draft Directive WIADD-8 issued for comment on December 20, 2000. Retain this directive until further notice.

BACKGROUND:

Audit requirements specified in OMB Circular A-133 require nonfederal entities that expend a total amount of federal awards equal to or in excess of \$300,000 in any fiscal year to have either a single audit or a program-specific audit. Nonfederal entities that expend federal awards under more than one federal program must have a single audit.

Under the Uniform Administrative Requirements for Grants and Agreements (Title 29 CFR Parts 95.26 and 97.26), each entity receiving funds under WIA must comply with Title 31 USC Chapter 75.

In addition, Title 31 USC Section 7502 further requires each pass-through entity to:

- Monitor the subrecipient's federal awards through site visits, limited scope audits, or other means;
- Review audits of subrecipients to determine if prompt and appropriate corrective action has been taken with respect to audit findings; and
- Require each of its subrecipients of federal awards to permit, as a condition of receiving federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary.

POLICY AND PROCEDURES:

LWIA Grants, Subrecipient or Cooperative Agreements

Each grant, subrecipient or cooperative agreement of the LWIA or its subrecipient shall contain the following requirement:

As a condition of receiving WIA funds, the independent auditor or monitor of the LWIA, the Employment Development Department (EDD) auditors, investigators, monitors, or their representatives shall have access to the records and financial statements as may be necessary to ensure compliance to the WIA law, regulations and directives.

Audit Requirements

Each LWIA will conduct and ensure that their subrecipients, expending \$300,000 or more in federal funds in a year, conduct an audit in accordance with Section 184 of WIA, Title 20 CFR Federal Register Section 667.200, Title 29 CFR Federal Register Part 95 or 97 and Title 31 USC Chapter 75 (attached). A Web site for Title 31 USC Chapter 75 is:

<http://www4.law.cornell.edu/uscode/31/ch75.html>

Governmental entities will continue submitting copies of their Single Audit Reports to the State Controller.

Copies of Non-Profit Organizations Single Audit Reports are to be submitted to EDD as follows:

**Audit & Evaluation Division, MIC 78
Employment Development Department
P.O. Box 826880
Sacramento, CA 94280-0001**

ACTION:

The actions specified by this directive shall be followed by the organizations and individuals specified herein, and is effective immediately.

INQUIRIES:

If you have any questions, please contact your regional advisor at (916) 654-7799.

/S/ BILL BURKE
Chief

Attachment

United States Code
Title 31 – Money and Finance
Subtitle V – General Assistance Administration
Chapter 75 – Requirements for Single Audits

Sec. 7501. Definitions

- (a) As used in this chapter, the term -
- (1) "Comptroller General" means the Comptroller General of the United States;
 - (2) "Director" means the Director of the Office of Management and Budget;
 - (3) "Federal agency" has the same meaning as the term "agency" in section 551(1) of title 5;
 - (4) "Federal awards" means Federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal awarding agencies or indirectly from pass-through entities;
 - (5) "Federal financial assistance" means assistance that non-Federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, or other assistance, but does not include amounts received as reimbursement for services rendered to individuals in accordance with guidance issued by the Director;
 - (6) "Federal program" means all Federal awards to a non-Federal entity assigned a single number in the Catalog of Federal Domestic Assistance or encompassed in a group of numbers or other category as defined by the Director;
 - (7) "generally accepted government auditing standards" means the government auditing standards issued by the Comptroller General;
 - (8) "independent auditor" means -
 - (A) an external State or local government auditor who meets the independence standards included in generally accepted government auditing standards; or
 - (B) a public accountant who meets such independence standards;
 - (9) "Indian tribe" means any Indian tribe, band, nation, or other organized group or community, including any Alaskan Native village or regional or village corporation (as defined in, or established under, the Alaskan Native Claims Settlement Act) that is recognized by the United States

as eligible for the special programs and services provided by the United States to Indians because of their status as Indians;

- (10) "internal controls" means a process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:
 - (A) Effectiveness and efficiency of operations.
 - (B) Reliability of financial reporting.
 - (C) Compliance with applicable laws and regulations;
- (11) "local government" means any unit of local government within a State, including a county, borough, municipality, city, town, township, parish, local public authority, special district, school district, intrastate district, council of governments, any other instrumentality of local government and, in accordance with guidelines issued by the Director, a group of local governments;
- (12) "major program" means a Federal program identified in accordance with risk-based criteria prescribed by the Director under this chapter, subject to the limitations described under subsection (b);
- (13) "non-Federal entity" means a State, local government, or nonprofit organization;
- (14) "nonprofit organization" means any corporation, trust, association, cooperative, or other organization that -
 - (A) is operated primarily for scientific, educational, service, charitable, or similar purposes in the public interest;
 - (B) is not organized primarily for profit; and
 - (C) uses net proceeds to maintain, improve, or expand the operations of the organization;
- (15) "pass-through entity" means a non-Federal entity that provides Federal awards to a subrecipient to carry out a Federal program;
- (16) "program-specific audit" means an audit of one Federal program;
- (17) "recipient" means a non-Federal entity that receives awards directly from a Federal agency to carry out a Federal program;
- (18) "single audit" means an audit, as described under section 7502(d), of a non-Federal entity that includes the entity's financial statements and Federal awards;
- (19) "State" means any State of the United States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Commonwealth of the Northern Mariana Islands, and the Trust Territory of the Pacific Islands, any instrumentality thereof, any multi-State, regional, or interstate entity which has governmental functions, and any Indian tribe; and

- (20) "subrecipient" means a non-Federal entity that receives Federal awards through another non-Federal entity to carry out a Federal program, but does not include an individual who receives financial assistance through such awards.
- (b) In prescribing risk-based program selection criteria for major programs, the Director shall not require more programs to be identified as major for a particular non-Federal entity, except as prescribed under subsection (c) or as provided under subsection (d), than would be identified if the major programs were defined as any program for which total expenditures of Federal awards by the non-Federal entity during the applicable year exceed -
- (1) the larger of \$30,000,000 or 0.15 percent of the non-Federal entity's total Federal expenditures, in the case of a non-Federal entity for which such total expenditures for all programs exceed \$10,000,000,000;
 - (2) the larger of \$3,000,000, or 0.30 percent of the non-Federal entity's total Federal expenditures, in the case of a non-Federal entity for which such total expenditures for all programs exceed \$100,000,000 but are less than or equal to \$10,000,000,000; or
 - (3) the larger of \$300,000, or 3 percent of such total Federal expenditures for all programs, in the case of a non-Federal entity for which such total expenditures for all programs equal or exceed \$300,000 but are less than or equal to \$100,000,000.
- (c) When the total expenditures of a non-Federal entity's major programs are less than 50 percent of the non-Federal entity's total expenditures of all Federal awards (or such lower percentage as specified by the Director), the auditor shall select and test additional programs as major programs as necessary to achieve audit coverage of at least 50 percent of Federal expenditures by the non-Federal entity (or such lower percentage as specified by the Director), in accordance with guidance issued by the Director.
- (d) Loan or loan guarantee programs, as specified by the Director, shall not be subject to the application of subsection (b).

Sec. 7502. Audit Requirements; Exemptions

- (a)
- (1)
 - (A) Each non-Federal entity that expends a total amount of Federal awards equal to or in excess of \$300,000 or such other amount specified by the Director under subsection (a)(3) in any fiscal year of such non-Federal entity shall have either a single audit or a

program-specific audit made for such fiscal year in accordance with the requirements of this chapter.

- (B) Each such non-Federal entity that expends Federal awards under more than one Federal program shall undergo a single audit in accordance with the requirements of subsections (b) through (i) of this section and guidance issued by the Director under section 7505.
- (C) Each such non-Federal entity that expends awards under only one Federal program and is not subject to laws, regulations, or Federal award agreements that require a financial statement audit of the non-Federal entity, may elect to have a program-specific audit conducted in accordance with applicable provisions of this section and guidance issued by the Director under section 7505.

(2)

- (A) Each non-Federal entity that expends a total amount of Federal awards of less than \$300,000 or such other amount specified by the Director under subsection (a)(3) in any fiscal year of such entity, shall be exempt for such fiscal year from compliance with -
 - (i) the audit requirements of this chapter; and
 - (ii) any applicable requirements concerning financial audits contained in Federal statutes and regulations governing programs under which such Federal awards are provided to that non-Federal entity.
- (B) The provisions of subparagraph (A)(ii) of this paragraph shall not exempt a non-Federal entity from compliance with any provision of a Federal statute or regulation that requires such non-Federal entity to maintain records concerning Federal awards provided to such non-Federal entity or that permits a Federal agency, pass-through entity, or the Comptroller General access to such records.

- (3) Every 2 years, the Director shall review the amount for requiring audits prescribed under paragraph (1)(A) and may adjust such dollar amount consistent with the purposes of this chapter, provided the Director does not make such adjustments below \$300,000.

(b)

- (1) Except as provided in paragraphs (2) and (3), audits conducted pursuant to this chapter shall be conducted annually.
- (2) A State or local government that is required by constitution or statute, in effect on January 1, 1987, to undergo its audits less frequently than annually, is permitted to undergo its audits pursuant to this chapter biennially. Audits conducted biennially under the provisions of this paragraph shall cover both years within the biennial period.

- (3) Any nonprofit organization that had biennial audits for all biennial periods ending between July 1, 1992, and January 1, 1995, is permitted to undergo its audits pursuant to this chapter biennially. Audits conducted biennially under the provisions of this paragraph shall cover both years within the biennial period.
- (c) Each audit conducted pursuant to subsection (a) shall be conducted by an independent auditor in accordance with generally accepted government auditing standards, except that, for the purposes of this chapter, performance audits shall not be required except as authorized by the Director.
- (d) Each single audit conducted pursuant to subsection (a) for any fiscal year shall -
 - (1) cover the operations of the entire non-Federal entity; or
 - (2) at the option of such non-Federal entity such audit shall include a series of audits that cover departments, agencies, and other organizational units which expended or otherwise administered Federal awards during such fiscal year provided that each such audit shall encompass the financial statements and schedule of expenditures of Federal awards for each such department, agency, and organizational unit, which shall be considered to be a non-Federal entity.
- (e) The auditor shall -
 - (1) determine whether the financial statements are presented fairly in all material respects in conformity with generally accepted accounting principles;
 - (2) determine whether the schedule of expenditures of Federal awards is presented fairly in all material respects in relation to the financial statements taken as a whole;
 - (3) with respect to internal controls pertaining to the compliance requirements for each major program -
 - (A) obtain an understanding of such internal controls;
 - (B) assess control risk; and
 - (C) perform tests of controls unless the controls are deemed to be ineffective; and
 - (4) determine whether the non-Federal entity has complied with the provisions of laws, regulations, and contracts or grants pertaining to Federal awards that have a direct and material effect on each major program.
- (f)
 - (1) Each Federal agency which provides Federal awards to a recipient shall-

- (A) provide such recipient the program names (and any identifying numbers) from which such awards are derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter; and
 - (B) review the audit of a recipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the recipient by the Federal agency.
- (2) Each pass-through entity shall -
 - (A) provide such subrecipient the program names (and any identifying numbers) from which such assistance is derived, and the Federal requirements which govern the use of such awards and the requirements of this chapter;
 - (B) monitor the subrecipient's use of Federal awards through site visits, limited scope audits, or other means;
 - (C) review the audit of a subrecipient as necessary to determine whether prompt and appropriate corrective action has been taken with respect to audit findings, as defined by the Director, pertaining to Federal awards provided to the subrecipient by the pass-through entity; and
 - (D) require each of its subrecipients of Federal awards to permit, as a condition of receiving Federal awards, the independent auditor of the pass-through entity to have such access to the subrecipient's records and financial statements as may be necessary for the pass-through entity to comply with this chapter.
- (g)
 - (1) The auditor shall report on the results of any audit conducted pursuant to this section, in accordance with guidance issued by the Director.
 - (2) When reporting on any single audit, the auditor shall include a summary of the auditor's results regarding the non-Federal entity's financial statements, internal controls, and compliance with laws and regulations.
- (h) The non-Federal entity shall transmit the reporting package, which shall include the non-Federal entity's financial statements, schedule of expenditures of Federal awards, corrective action plan defined under subsection (i), and auditor's reports developed pursuant to this section, to a Federal clearinghouse designated by the Director, and make it available for public inspection within the earlier of -
 - (1) 30 days after receipt of the auditor's report; or
 - (2)

- (A) for a transition period of at least 2 years after the effective date of the Single Audit Act Amendments of 1996, as established by the Director, 13 months after the end of the period audited; or
 - (B) for fiscal years beginning after the period specified in subparagraph (A), 9 months after the end of the period audited, or within a longer timeframe authorized by the Federal agency, determined under criteria issued under section 7504, when the 9-month timeframe would place an undue burden on the non-Federal entity.
- (i) If an audit conducted pursuant to this section discloses any audit findings, as defined by the Director, including material noncompliance with individual compliance requirements for a major program by, or reportable conditions in the internal controls of, the non-Federal entity with respect to the matters described in subsection (e), the non-Federal entity shall submit to Federal officials designated by the Director, a plan for corrective action to eliminate such audit findings or reportable conditions or a statement describing the reasons that corrective action is not necessary. Such plan shall be consistent with the audit resolution standard promulgated by the Comptroller General (as part of the standards for internal controls in the Federal Government) pursuant to section 3512(c).
- (j) The Director may authorize pilot projects to test alternative methods of achieving the purposes of this chapter. Such pilot projects may begin only after consultation with the Chair and Ranking Minority Member of the Committee on Governmental Affairs of the Senate and the Chair and Ranking Minority Member of the Committee on Government Reform and Oversight of the House of Representatives.

Sec. 7503. Relation to Other Audit Requirements

- (a) An audit conducted in accordance with this chapter shall be in lieu of any financial audit of Federal awards which a non-Federal entity is required to undergo under any other Federal law or regulation. To the extent that such audit provides a Federal agency with the information it requires to carry out its responsibilities under Federal law or regulation, a Federal agency shall rely upon and use that information.
- (b) Notwithstanding subsection (a), a Federal agency may conduct or arrange for additional audits which are necessary to carry out its responsibilities under Federal law or regulation. The provisions of this chapter do not authorize any non-Federal entity (or subrecipient thereof) to constrain, in any manner, such agency from carrying out or arranging for such additional audits, except that the Federal agency shall plan such audits to not be duplicative of other audits of Federal awards.
- (c) The provisions of this chapter do not limit the authority of Federal agencies to conduct, or arrange for the conduct of, audits and evaluations of Federal

awards, nor limit the authority of any Federal agency Inspector General or other Federal official.

- (d) Subsection (a) shall apply to a non-Federal entity which undergoes an audit in accordance with this chapter even though it is not required by section 7502(a) to have such an audit.
- (e) A Federal agency that provides Federal awards and conducts or arranges for audits of non-Federal entities receiving such awards that are in addition to the audits of non-Federal entities conducted pursuant to this chapter shall, consistent with other applicable law, arrange for funding the full cost of such additional audits. Any such additional audits shall be coordinated with the Federal agency determined under criteria issued under section 7504 to preclude duplication of the audits conducted pursuant to this chapter or other additional audits.
- (f) Upon request by a Federal agency or the Comptroller General, any independent auditor conducting an audit pursuant to this chapter shall make the auditor's working papers available to the Federal agency or the Comptroller General as part of a quality review, to resolve audit findings, or to carry out oversight responsibilities consistent with the purposes of this chapter. Such access to auditor's working papers shall include the right to obtain copies.

Sec. 7504. Federal Agency Responsibilities and Relations with Non-Federal Entities

- (a) Each Federal agency shall, in accordance with guidance issued by the Director under section 7505, with regard to Federal awards provided by the agency -
 - (1) monitor non-Federal entity use of Federal awards, and
 - (2) assess the quality of audits conducted under this chapter for audits of entities for which the agency is the single Federal agency determined under subsection (b).
- (b) Each non-Federal entity shall have a single Federal agency, determined in accordance with criteria established by the Director, to provide the non-Federal entity with technical assistance and assist with implementation of this chapter.
- (c) The Director shall designate a Federal clearinghouse to -
 - (1) receive copies of all reporting packages developed in accordance with this chapter;
 - (2) identify recipients that expend \$300,000 or more in Federal awards or such other amount specified by the Director under section 7502(a)(3) during the recipient's fiscal year but did not undergo an audit in accordance with this chapter; and

- (3) perform analyses to assist the Director in carrying out responsibilities under this chapter.

Sec. 7505. Regulations

- (a) The Director, after consultation with the Comptroller General, and appropriate officials from Federal, State, and local governments and nonprofit organizations shall prescribe guidance to implement this chapter. Each Federal agency shall promulgate such amendments to its regulations as may be necessary to conform such regulations to the requirements of this chapter and of such guidance.
- (b)
 - (1) The guidance prescribed pursuant to subsection (a) shall include criteria for determining the appropriate charges to Federal awards for the cost of audits. Such criteria shall prohibit a non-Federal entity from charging to any Federal awards -
 - (A) the cost of any audit which is -
 - (i) not conducted in accordance with this chapter; or
 - (ii) conducted in accordance with this chapter when expenditures of Federal awards are less than amounts cited in section 7502(a)(1)(A) or specified by the Director under section 7502(a)(3), except that the Director may allow the cost of limited scope audits to monitor subrecipients in accordance with section 7502(f)(2)(B); and
 - (B) more than a reasonably proportionate share of the cost of any such audit that is conducted in accordance with this chapter.
 - (2) The criteria prescribed pursuant to paragraph (1) shall not, in the absence of documentation demonstrating a higher actual cost, permit the percentage of the cost of audits performed pursuant to this chapter charged to Federal awards, to exceed the ratio of total Federal awards expended by such non-Federal entity during the applicable fiscal year or years, to such non-Federal entity's total expenditures during such fiscal year or years.
- (c) Such guidance shall include such provisions as may be necessary to ensure that small business concerns, qualified HUBZone small business concerns, and business concerns owned and controlled by socially and economically disadvantaged individuals will have the opportunity to participate in the performance of contracts awarded to fulfill the audit requirements of this chapter.

Sec. 7506. Monitoring Responsibilities of the Comptroller General

- (a) The Comptroller General shall review provisions requiring financial audits of non-Federal entities that receive Federal awards that are contained in bills

and resolutions reported by the committees of the Senate and the House of Representatives.

- (b) If the Comptroller General determines that a bill or resolution contains provisions that are inconsistent with the requirements of this chapter, the Comptroller General shall, at the earliest practicable date, notify in writing -
 - (1) the committee that reported such bill or resolution; and
 - (2)
 - (A) the Committee on Governmental Affairs of the Senate (in the case of a bill or resolution reported by a committee of the Senate); or
 - (B) the Committee on Government Reform and Oversight of the House of Representatives (in the case of a bill or resolution reported by a committee of the House of Representatives).

Sec. 7507. Effective Date

This chapter shall apply to any non-Federal entity with respect to any of its fiscal years which begin after June 30, 1996.